Idaho State University Federal Credit Union

April 2, 2009

Ms. Mary Rupp, Board Secretary
National Credit Union Administration
1775 Duke Street
Alexandria, VA 22314-3428

Subject: ANPR for Part 704, Corporate Credit Unions

Dear Ms. Rupp:

Thank you for the opportunity to submit comments about the National Credit Union Administration's ANPR concerning the corporate credit union system.

We believe corporate credit unions serve a crucial role in the credit union industry. However, the current corporate credit union structure allows for excessive systemic risk because of the interdependency of wholesale and retail corporate credit unions for automated clearing house, and payment settlement services. The collapse of a single wholesale credit union, which acts as an aggregator for many retail corporate credit unions, would be devastating to the majority of natural person credit unions, who are dependent on such services. It is understandable that aggregating certain services reduces costs to natural person credit unions, which belong to smaller retail corporate credit unions. However, the risk to the overall credit union system outweigh the minimal cost savings

The second tier, or wholesale credit union, should be eliminated from the corporate system. The remaining 27 retail corporate credit unions should be merged and reduced to eight to twelve regional corporate credit unions that serve natural person credit unions within well-defined regions of the United States and its territories, similar to the Federal Home Loan Bank system.

The new larger corporate credit unions should then have sufficient economies of scale to provide payment system services and other ancillary services to natural person credit unions at reasonable costs.

We see no justification for repealing or limiting the expanded investment authority of corporate credit unions, as it now exists, even under our proposed regionalized system. The expanded investment authority of corporate credit unions did not lead to the current market dislocation. The current financial crisis is not just a credit union problem, it is a worldwide credit freeze that was unforeseen by many of the brightest financial minds in the world. Restricting corporate credit unions' investment authority now would be a disservice to natural person credit unions in the future. However, a risk-weighted capital structure should be established, which would bring corporate capital requirements in line with the standards of other federal financial regulators. A risk-weighted capital structure for natural person credit unions should also be considered.

The capital structure of the corporate credit unions should require a minimal capital contribution by natural person credit unions seeking membership and services from corporate credit unions. Membership capital, paid in capital, and as well as core capital should be used as components of regulatory capital. Additionally, NCUA should seek additional methods for corporate and natural person credit unions to raise capital.

The credit risk rating for investments by the major rating agencies is flawed. In time, the markets will correct these flaws. However, no reliable alternatives exist at this time. Due to the lack of viable alternatives, we recommend two independent ratings from the major rating agencies be used to assess the risk of various permissible credit union investments. The lower of the two ratings, from the major rating agencies, should be used for compliance purposes.

We do not support NCUA mandated minimum standards for corporate credit union directors that require a director to posses an appropriate level of experience or education.

Member natural person credit unions should be able to ascertain candidates' qualifications through the nomination and election process for corporate credit union boards. Only representatives of natural person credit unions should serve on retail corporate credit union boards. We also do not support outsiders, including state credit union leagues and league service corporations and national credit union trade associations, being allowed to serve on either wholesale or retail corporate credit union boards. Outsiders, with the exception of trade associations, do not necessarily have a firm grasp of the cooperative nature of the credit union industry, and therefore, may not contribute to the governance of the corporate credit union in a meaningful way. Didn't the management and board members of Countrywide, Washington Mutual, Indy Mac Bank, FNMA, FHLMC, and others have professional board members and management with the requisite expertise to manage their institutions also become subject to the same market forces now affecting the credit union system?

Term limits should be enforced but should be of sufficient length so board members' experience and expertise can be leveraged for the benefit of member credit unions. We are opposed to allowing any corporate board member to be compensated for his or her service. Compensation would have unintended consequences including the potential of having candidates seeking a board seat for the sole purpose of compensation and not for the benefit of the industry. Paying for service on a board of directors in any type of credit union is contrary to the credit union way.

We appreciate the opportunity to provide input during this critical time in credit union history. The NCUA board has a unique opportunity to modernize the corporate credit union system. Please keep in mind that risk cannot be entirely removed from credit union investments without serious consequences for the entire industry, including becoming irrelevant and noncompetitive in the modern financial world.

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FEDERAL CREDIT UNION

Once again, we believe that eliminating the interdependency of the corporate credit unions with fewer but larger retail corporate credit unions will help alleviate systemic risk within the credit union industry. However, we urge restraint in promulgating burdensome and restrictive regulations due to a singular unpredictable event in the credit markets.

Sincerely,

Robert V. Taylor
President/CEO

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